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Advancing the Servitization Process: From Strategic Approaches to Practical Challenges

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ABSTRACT

Product companies cite increasing global competition as a reason for exploring new strategies. A phenomenon that has become increasingly common for product companies is to add a greater service-focus to its market offering. This phenomenon has become known as *servitization*. Previous research has mainly focused on explaining the strategic implications of servitizing and has attempted to explain how such a process should be initiated. To build on the previous research, this study aims to explore how a servitization process should be developed by examining which change approach that should be used, which group that is the most important to involve and which specific leadership challenges that needs to be addressed. The study is conducted through a single-case study backed up with three secondary case companies. The methodological approach is qualitative, exploratory and comparative. The study found that there are two major change approaches to servitization; radical and transitional. The main reason for determining which one to use is by looking at the customers' level of maturity and demand related to buying solutions as compared to individual products or services. Furthermore, the study shows that because of the customers' importance in the process and the fact that a solutions approach requires extensive internal alignment and collaboration, the sales function is a key group to involve in a transitional transformation. Finally, the study shows that a number of challenges related to alignment and collaboration exists when trying to advance a transitional servitization. A key challenge to address is the threat factor which has been found to exist between the product and service sales organizations.

Key words: *Servitization, Transformation, Collaboration, Leadership Challenges, Threat*

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1. INTRODUCTION

Corporations have always strived to find competitive advantages in order to achieve financial stability over time. Historically, in companies like Volvo, SKF, Toyota and many others, competitive advantages have been linked to innovations in superior products[1] and high-quality manufacturing processes (Womack, et al., 2007). By combining high-quality manufacturing at moderate costs with superior products, companies have reaped benefits from multiple advantages (Ghemawat & Rivkin, 2006). Companies have been able to grow and compete by developing quality products that their customers want and are willing to pay for whilst keeping costs at competitive levels (ibid.).

Over decades, product companies[2] have worked hard on strategies for survival as the global competition for physical goods has exploded (Turunen & Neely, 2012). First Japan and the Tiger Economies of South East Asia, and now China, challenges the long term viability of product-centric strategies. It took almost a decade for the Western automotive industry to respond to Toyota's lean-production of high-quality cars (Womack, et al., 2007). Given the pressure from China in the advanced product markets – Ericsson's competitor Huawei is a good example - product companies are exploring new strategies to differentiate and improve their offering. What if the competitors not only make appealing low-cost products, but also advanced products at relatively low cost? It has become attractive for many companies to think carefully about how to shift from low-margin products into high-margin services. In this respect, IBM's much-discussed turn-around in the 1990s has served as a beacon for many companies (Gerstner, 2002).

Hence, introduction of services[3] and solutions[4], or *servitization*[5] as scholars call the process *(*Vandermerwe and Rada, 1988), holds a premiere spot at the strategic agenda of many top-executives. The logic behind this strategy is simple; instead of just selling a product once and expecting that the customer will return to buy a new one, the company will sell a solution which can include not only the product but also maintenance or other measures which solve problems over time (Baines, et al., 2009).

Definition of key concepts, based on previous servitization research
[1] Definition of product: A tangible, discernible item
[2] Definition of product company: A company which sees products as its main business and services as an add-on
[3] Definition of service: Economic activity that does not lead to possession of a tangible artefact, but rather the application of skills and expertise towards a specific purpose. Examples include maintenance and licenses.
[4] Definition of solution: A solution is a combination of an organization's offering to customer's, such as products and services. A solution is provided to address a customer's specific business problem or need.
[5] Definition of servitization: A process in which product companies change internal and external functions to deliver better value to customers by adding an enhanced service proposition and combining it with its product offering.

Adopting a service strategy implies altering the business model to accommodate for structures that support a clear service offering, as well as adopting a new mindset[6] that is needed to sell intangible solutions rather than tangible products (see Figure 1); (Gebauer, et al., 2006). Advantages of adopting a service mindset, according to researchers, includes increasing customer satisfaction by addressing the customer's actual need over time, increasing revenues and profitability and increasing the complexity of the business relationship, which makes it harder to copy (Frambach, et al., 1997); (Wise & Baumgartner, 1999); (Kallenberg & Oliva, 2003); (Gebauer & Friedli, 2005).

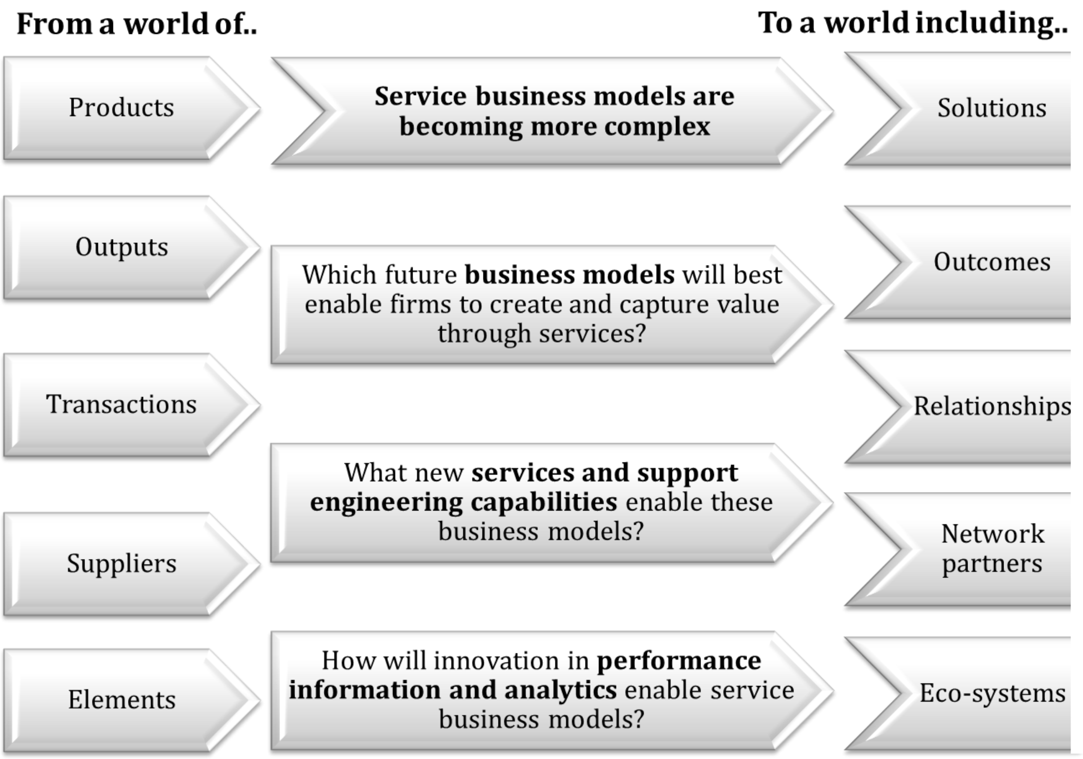

Figure 1: The shift from product-focus to service-focus, adapted from Neely et al. (2011)

Introducing servitization into a traditional product company often means introducing a brand new way of thinking (Kallenberg & Oliva, 2003); (Slack, 2005). This new way of doing business indicates that the company must transform their old way of thinking and working, as the existing organization often is optimized to support divisional product development and sales. Even though many organizations have indeed sold services before, these have, as will be shown further down, existed primarily to support product sales and have often been very simplified, such as maintenance packages. A first step towards servitization has often been to collect all existing service operations and group them into a new division. However, these services have

[6] Definition of service-oriented mindset: An organization or function which has reached a holistic understanding of the value of services as well as how to sell and deliver them

still been quite simple and have still not been seen as a strategic area of interest in itself (Kallenberg & Oliva, 2003).

Introducing servitization also implies a number of structural challenges, including changes to leadership, culture, service design, process understanding and organizational strategy (Mathieu, 2001); (Slack, 2005); (Brax, 2005). These challenges are especially evident in the sales setting, as research has identified a need for different types of sales strategies, organizational structures and leadership (Kallenberg & Oliva, 2003); (Turunen & Neely, 2012).

Strategy and organizing are perennial questions when studying organizational change. As solutions are now becoming more prioritized, a logical step to ensure that the organizational setup supports this new strategy would be to tailor the organization by reorganizing it (Porter, 1996).

Following Porter's (1996) reasoning, adopting a new strategy implies a radical organizational change in order to ensure that the value-chain activities are aligned, mutually reinforcing and supporting the strategy. In other words: in order to reap benefits from the new strategy, the company needs to re-align its value-chain activities to support the new strategy. Much of the discussion in organizational change is about why organizational change is difficult. The problem that companies are facing is called 'inertia', meaning everything from plainly conservative employees, managers and owners to deep seated routines and structures at the organizational level (Hannan & Freeman, 1984). Porter (1996) can be read as call for *radical* organizational change: if a company changes too slowly, it will be 'straddling', that is, trying to combine elements of different strategies for too long, resulting in poor performance. From this position, it is easy to see why strategic change should be radical.

However, as will be shown in the course of this study, the reason for why organizations experience difficulties when trying to transform their business in that way is often due to the fact that the pure product sales still represents a large, critical part of the overall revenue stream. The original way of doing business therefore exists to support this specific revenue stream and to fulfill the customer's demand for only products. Therefore, a radical servitization transformation in the way implied by Porter's (1996) reasoning appears to be unrealistic in cases where the organization is dependent on its product revenue stream. To take the argument one step further, we argue that servitization in these cases should not lead to the elimination of products, rather the successful servitization results in an offer where the company bundles products and services into a tightly combined offer.

The other way to achieve change is to make it transitional and allow for continued survival of the business while at the same time exploiting new opportunities. A transitional change is thus more realistic if organizations are still dependent on the original strategy. As this is the case for most of the companies that have been examined in this study, along with the lack of research addressing practical implications for transitional change, this area becomes highly relevant to investigate and will therefore be the main focus of this paper.

As will be shown in the course of this study, running parallel structures (structures supporting product sales and service sales) implies a need for strong cooperation between divisions and business areas in a way that organizations are often not used to and not designed to accomplish. This puts tremendous pressure on the relations and integration between divisions and functions, which will be further examined in this study.

One of the functions where this is the most evident is the sales force, where the whole organization's resources and functions need to come together and deliver a competitive solution to the client. Also, as will be shown further down, the sales force is a key driver in aligning different functions, which makes it interesting to study in a servitization context. Furthermore, this puts great strains on leadership and implies a need to understand the role of the organization's internal political landscape.

1.1 THESIS OVERVIEW

The chapter that follows (Chapter 2) presents relevant previous research in three overarching areas, starting out broadly with strategic implications and moving downwards toward more narrow and specific implementation challenges (see illustration in Figure 2 below). The first area is related to corporate strategy and outlines two general approaches to servitization transformation. The second area moves into research related to how a strategy should be operationalized in order to support it optimally. The third area moves further into practice, identifying possible challenges related to the implementation of a strategic transformation. Following the literature review, the research gap which this study is based on is presented. The chapter is then concluded by presenting the research questions which the study aims to address.

The subsequent chapter (Chapter 3) presents and explains the methodology that has been chosen for this study. This includes research design, data gathering and excellence of study. This is followed by the empirical findings (Chapter 4), which introduces the primary case company and the secondary case companies, together with an outline of their respective servitization processes. The subsequent chapter (Chapter 5) analyzes the empirical findings through the lens of previous research. The chapter is divided into the same three sections as Chapter 2, and each section addresses one of the three research questions. The results are then concluded and discussed in Chapter 6 by identifying contributions and possible further research.

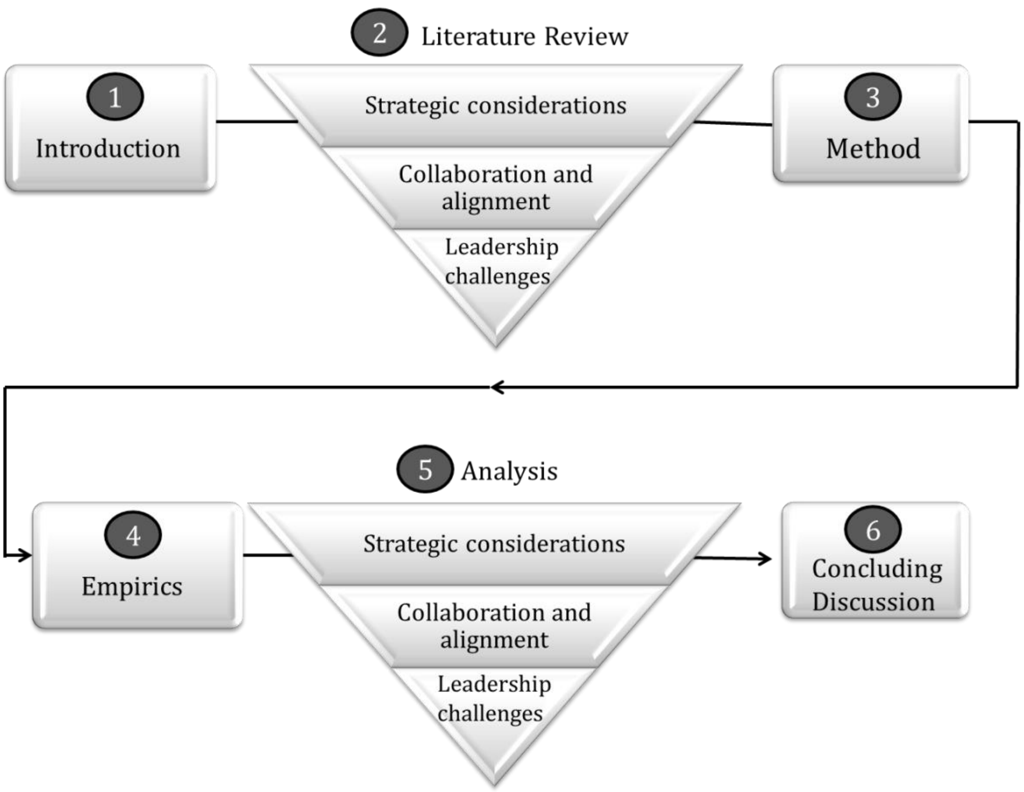

Figure 2: Thesis Overview Model

2. PREVIOUS RESEARCH – LITERATURE REVIEW

This chapter presents the previous research which will be used as a base for this study. The chapter is divided into three sections, which then will be recurring throughout the study.

The first section covers the two possible strategic approaches applicable to a servitization transformation process. These approaches are radical *change and* transitional *change.*

The second section covers organizational collaboration and alignment. This follows as research suggests that after adopting a suitable strategy an organization must achieve alignment and collaboration between different departments in order to be operationally successful.

The third section introduces specific challenges to servitization processes by presenting earlier research on servitization as well as identifying concrete challenges related to leadership.

2.1 STRATEGIC CONSIDERATIONS: RADICAL OR TRANSITIONAL CHANGE

In the well-cited article "What is Strategy?", Porter (1996) argues that the pressure on management has been increasingly serious since the 1980´s. This is because companies must be flexible to respond rapidly to the increasing market and industry changes. Furthermore, managers have been told that they need to outsource aggressively to gain efficiency and that they must develop core competencies to keep up with competition. Today's attention on "core" competencies, "critical" resources and "key" success factors, rather than seeing the company, as a whole is devastating for a company. This is because activities affect each other and competitive advantage is thereby created through how the entire system of activities fit and reinforces one another. The importance of fit among functional policies is one of the oldest ideas in strategy and is in fact, according to Porter, the most important one (Porter, 1996).

As described by Porter (1996), there are three types of fit between activities within an organization: first-order fit, second-order fit and third-order fit. The first order fit describes *strategic fit*, which relates to how well all organizational functions fit with the overall strategy. For example, if a company has a low cost sales strategy its other activities such as marketing should also match with that strategy. Consistency within the first order fit will thus ensure that the competitive advantages of activities cumulate. It also makes the strategy easier to communicate to stakeholders, as all activities are consistent, and improves the implementation.

The second order fit concerns *reinforcing activities*. This implies that the combination of activities generate synergies and results in higher value than just the total value of all activities, implying that 1+1 = 3 rather than 1+1 = 2. For example, the combination of point of sale activity, heavy television advertising and packaging changes creates far more impulsive buying than any activity in isolation could do. The third order fit considers *optimization of effort*. It is here important to understand which processes within activities that can reduce wasted efforts and further optimize the effort. Examples are information exchange and coordination within activities which aims to decrease the likelihood of wasted efforts (Porter, 1996).

Overall fit among activities does not only create a competitive advantage but also makes the strategy more sustainable. This can therefore be seen as a generic strategy in order to align functions around a collective goal. This is due to the fact that it is rather easy for a competitor to imitate a certain marketing approach or reproduce a specific product, while it is much more difficult to copy a series of interconnected activities. A company which tries to copy a successful strategy while also keeping its original strategy is according to Porter (1996) almost guaranteed to lose to the incumbent due to a lack of fit. These companies are referred to as *straddlers* as they try to match the benefits of a successful position while maintaining its existing position.

Porter's (1996) reasoning can therefore be seen as a call for *radical* change, due to the disadvantages identified with a *straddler* position. If a change in strategy is needed, the whole organization and all of its value-chain activities must support the new strategy – and thus any strategic changes imply reflecting changes throughout the value chain in order to avoid major inefficiencies.

The alternative to this notion would be *transitional* change. This would imply allowing for separate structures to run parallel while shifting strategy and operations over time. In order to successfully achieve this, an organization must be ambidextrous[7], as first defined by Duncan (1976), meaning that it should exploit its current way of doing business while allowing to simultaneously adopting to changes in environment and strategy. The idea behind this concept is that organizations will always be in some state of internal conflict given external and internal demands. This implies continuous trade-offs between priorities related to investments in current versus future projects for example. While these trade-offs imply an *either/or* perspective, i.e. either invest in project A or project B, a new focus is paradoxical thinking where scholars have identified the need to combine seemingly paradoxical activities (Gibson & Birkinshaw, 2004).

Gibson & Birkinshaw (2004) researched organizational ambidexterity in a widely acknowledged study building on paradoxical activities and contextual ambidexterity. Their findings suggest

[7] Definition of ambidexterity: An organization's ability to be efficient in its management of today's business while at the same time being adaptable for coping with tomorrow's changing demand

that organizations should encourage alignment[8] and adaptability[9] as a means to allow for ambidexterity, as this will align functions around the concept of adaption. Furthermore, the findings show that ambidexterity is seen as an asset for organizations, as it increases business performance. Crucial ways of achieving this in an organization is to enable a supportive context which creates the capacity for ambidexterity (Gibson & Birkinshaw, 2004).

Following this reasoning, it is evident that a transitional approach would require an ambidextrous organization which allows for seemingly paradoxical activities to run parallel. This notion can also be related to theories on *disruptive innovation*, which just like Gibson & Birkinshaw (2004) points out that organizations should enable extended periods of co-existence where existing and new strategies or concepts run parallel. However, this will as a consequence open up for conflicts between functions, if the alignment and adaptability as identified above is not in place (Chesbrough, 2010).

2.2 ORGANIZATIONAL COLLABORATION & ALIGNMENT

To ensure that a company leverages its resources, it must except for adopting a suitable strategy also achieve alignment and collaboration between different departments (Tjosvold, 1988). The reason for this is that capabilities and competences are distributed throughout the company and that cost savings through the transfer of best practices can be achieved. Also, research has identified that revenues can be increased through the sharing of expertise among departments, and that innovative ideas are more easily formed and distributed (Hansen & Nohria, 2004).

Furthermore, increased transparency of information makes it possible to improve the fit and reinforcement of activities (Porter, 1996). At the same time, better interdepartmental collaboration leads to increased customer satisfaction (Kotler, et al., 2006), (Shapiro, 2002), (Liedtka, 1996), (McCann & Galbraith, 1981). This is based on two explanations. Firstly, the enlarged customer knowledge enables the sales force to adapt their offering to fit their customers better. Secondly, the product or service actually provided to the customers becomes better as the information about the customer's demand is transparent within the organization (Kotler, et al., 2006), (Shapiro, 2002), (Liedtka, 1996), (McCann & Galbraith, 1981). The increased customer satisfaction will then in turn lead to lower cost of sales and a bigger market share (Reichheld, 2001).

[8] Definition of alignment: Alignment refers to coherence among all the patterns of activities in one or more organizational functions; they work together toward the same goals
[9] Definition of adaptability: Adaptability refers to the capacity to reconfigure activities quickly to meet changing internal and/or external demands

Moreover, increased collaboration leads to improved operational performance and thereby higher profitability as a result of more transparent information (Kotler, et al., 2006). Shapiro (2202) also stress that in cases where two separate functions are interdependent and strive towards the same goal, but have different ways of working, they should increase their alignment and collaboration.

This notion has also been put forward specifically in servitization settings as well, where organizations are encouraged to implement cross-functional as well as cross-organizational feedback between different actors in the supply chain, in order to respond adequately to the new competitive challenges (Saccani, et al., 2005). The concept of servitization and its specific challenges will be introduced and explored further in the section below.

2.3 SERVITIZATIONAL LEADERSHIP CHALLENGES

2.3.1 DEVELOPMENT OF THE CONCEPT OF SERVITIZATION

Traditionally, companies have viewed and described themselves as being a "product company" or a "service company[10]" (Vandermerwe & Rada, 1988). However, researchers have for the past decades noticed a trend where an increasing number of product companies add a developed service offering in order to sell solutions, which is referred to as *servitization* (see Figure 3 below); (Baines, et al., 2009). The main difference between product companies and service companies is their view on products and services (ibid.). As can be seen in Figure 3 below, a product company sees products as its main offering and services as an add-on – something that exists to enhance their product sales. In contrast, a service company sees services as its main offering while products are seen as an add-on (Kallenberg & Oliva, 2003).

[10] Definition of service company: A company which sees services as its main business and tangible goods as an add-on.

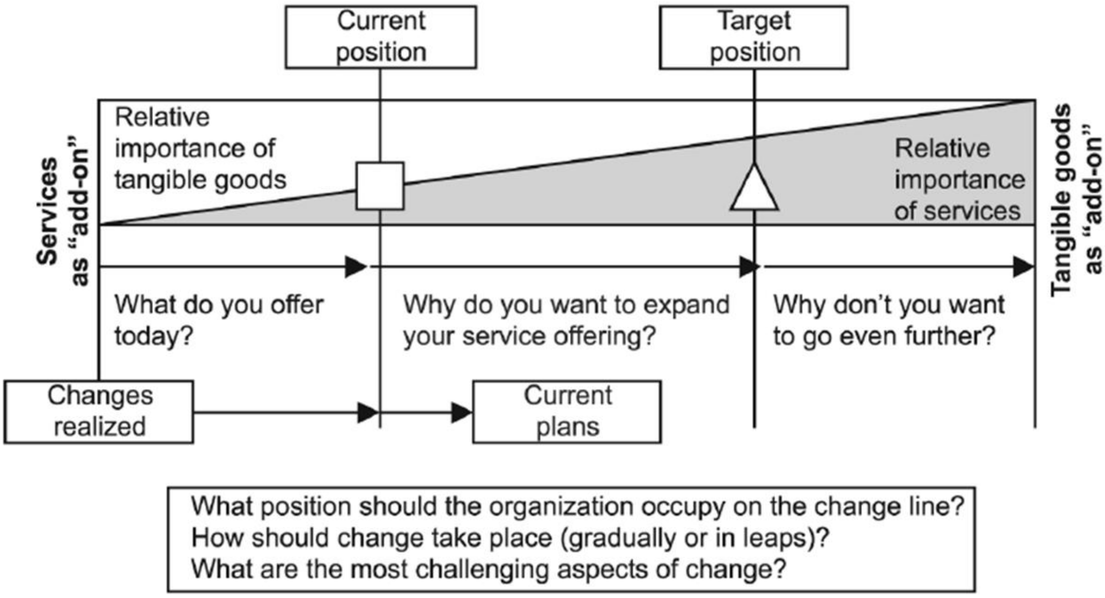

Figure 3: "The Product – Service Continuum", (Kallenberg & Oliva, 2003).

2.3.2 SEPARATING THE SERVICE AND PRODUCT ORGANIZATION

Even though many researchers have studied servitization, fewer have written about how the concept should be implemented in practice (Baines, et al., 2009). However, researchers that have addressed this issue often suggest that organizations should use *separation* as a way to advance servitization internally (Kallenberg & Oliva, 2003); (Baines, et al., 2009); (Gebauer & Friedli, 2005); (Gebauer, et al., 2006); (Turunen & Neely, 2012). This means that the organization, in order to avoid that the service part suffocates in the initially larger product organization due to a lack of focus and management attention, separates the two into independent functions (ibid.).

Kallenberg & Oliva (2003), set out to conduct an empirical study on how certain manufacturing companies organized their servitization efforts. As many of the case companies showed similarities in the driving forces behind separating the product and service organization, Kallenberg & Oliva clustered these into steps which are presented below.

The companies first set out to separate their existing service/aftermarket operations into a separate service organization. The reason for this was that they otherwise had a hard time to carry out necessary change efforts and grow an optimal organization in terms of leadership, competences and culture. The study also found that most of the companies with successful service organizations had assigned them full Profit & Loss (P&L) responsibility, instead of seeing them as a support function. Main reasons for separation that have been discussed by Kallenberg & Oliva (2003) as well as other scholars in the area are visualized in Table 1 below.

Reason for Separation	Explanation
Avoid that services gets suffocated in the larger product organization	The service organization is initially often much smaller than the product organization, which means that there is a risk for a lack of focus and support if it is kept in the product organization
Differences in working styles between products and services	Products and services are developed, managed and sold in different ways, which implies differences in the way of working
Differences in required skills sets between products and services	Products and services are developed, managed and sold in different ways, which implies a difference in necessary skills
Make service P&L more transparent	In order to fully servitize and give credibility to the new business opportunity, the organization should provide it with P&L responsibility in order to measure its performance

Table 1: Driving forces behind the decision to separate services and products in a servitization setting, adapted from Kallenberg & Oliva (2003); Turunen & Neely (2012) and Baines et al. (2009).

By organizing the service operations in this manner, Kallenberg & Oliva (2003) found additional advantages apart from the reasons identified beforehand. The companies were through the separation able to address two important challenges; creating and maintaining a service-orientation as well as setting up service networks. Especially the service-orientation, which is crucial in a servitization process, was found to be supported by the separation of the service and manufacturing operations.

The separation also aided the transformation of the business, as service sales implicate an entirely different business model that is different to most manufacturing companies' traditional way of doing business. Servitization implies moving away from one-time transactions to a more relationship-based business model where the company becomes more of a provider of solutions rather than individual services or products (Kallenberg & Oliva, 2003).

Visnjic and Van Looy (2013), argue similarly as Kallenberg & Oliva (2003), but focus on the management implications of how successful servitization should be achieved. They argue mainly that companies have to change their business models to accommodate for integration between products and services, where they are viewed as revenue complements.

The main takeaway from the studies presented above is that researchers conclude that the service organization should be separated from the traditional manufacturing organization. This is to establish growth at its own terms and to maintain a mindset which is fit for a service organization. Also, a key takeaway is that the service organization must be responsible for its own P&L as there otherwise is a risk that the rest of the organization merely continues to view the service organization as a support function that can be used to convince customers that are buying from the product organization.

While it is clear that separation of service and product salesforces is encouraged by previous research, the challenges that this separation brings is not as clearly answered. In Turunen & Neely (2012), the authors' calls for additional research as to how these challenges should be addressed. They write:

*"In addition, our findings suggest that the **integration between production and service units is one of the critical factors** determining the success of servitization. Besides this notion, this study does not directly offer any suggestions on how to increase the level of integration between different units; therefore, **there is a clear need for research that develops models for integration in servitizing** manufacturing companies."*[11]

Due to the lack of previous research in addressing the specific issue presented above, this study will also include theories on collaboration and alignment between other functions.

2.3.3 CHALLENGES TO INCREASING COLLABORATION AND ALIGNMENT

As seen above, previous research on servitization processes lack a clear discussion about how collaboration and alignment specifically between product and service salesforces should be carried out. However, previous research on general organizational collaboration has addressed challenges that arise in inter-functional collaboration (Yandle & Blythe, 2000).

Yandle & Blythe (2000), Shapiro (2002) and Kotler et al (2006) have all studied the implications of poor collaboration between organizational functions – in particular in the marketing and sales functions. Main challenges that have been identified in the respective studies are summarized in Table 2 below and are further presented in the following sub-sections.

[11] Highlighting added for clarification purposes

Challenge	Explanation
Resource allocation	Conflicting managerial views on how resources should be distributed and allocated among activities and areas
Goals, Work descriptions & Incentives	Long-term vs short-term perspective, contradictory incentive systems, difference in goals (life-time value vs weekly sales quotas)
Culture, Status & Trust	Differences in background: Education, previous work experience, working styles and skills (analytical vs people skills) leading to distrust and misunderstandings

Table 2: Summary of alignment challenges identified by Yandle & Blythe (2000), Kotler et al (2006) and Shapiro (2002).

RESOURCE ALLOCATION

A fundamental challenge to addressing poor inter-departmental alignment is lack of consensus in management related to resource allocation. As identified by Mathieu (2001), this is a potential source of internal conflicts related to a change process. Mathieu points out that a new strategy generally can lead to a fear of loss of power and defensive behavior from managers who perceive that their domain might be altered. For example, in a servitization this could be seen when a product manager feels that the process alter its authority and resources. Consequently, this leads to a fear of loss of power, which can lead to defensive behavior. This implies conflicts about which activities that should be supported, which can be correlated to internal power struggles, hierarchy and status. These behaviors must therefore be understood and accounted for in a servitization setting in order to facilitate alignment and collaboration.

GOALS, WORK DESCRIPTIONS & INCENTIVES

A second fundamental challenge to addressing alignment is contradictions and differences in goals. These differences are often expressed in the respective work descriptions and incentive systems, which guide how the employees act in certain situations. Kotler et al (2006) points out that there often are inherent differences between functions, as they often have different perspectives when it comes to the business. These can often be explained by differences in work description and incentive systems, where the sales function is generally more short-sighted as it is incentivized to boost short-term sales volume. The marketing function, on the other hand, often has a longer perspective and is often incentivized on a yearly basis.

CULTURE, STATUS & TRUST

Previous research identifies culture, status and trust as an important barrier to improved collaboration and alignment. This can often be related to differences in background, such as education, previous work experience and skills set. For example, sales representatives are attributed to superior people skills while marketers are considered to be more analytical. The subsequent difference in work styles also tend to lead to distrust between the functions, as they do not understand in what way the other function delivers value to the organizations (Shapiro, 2002); (Kotler, et al., 2006). Status and trust issues can also stem from internal resistance and power struggles as identified above by Mathieu (2001). Changes in an organization often lead to changes in internal hierarchies, which subsequently affect the internal status and trust between functions.

2.3.4 APPLICABILITY TO A SERVITIZATION SETTING

Even though the challenges identified above are mostly derived from the relationship between the marketing and sales functions, they should also be applicable to the service and product organizations, as they share a number of common characteristics:

Just like the marketing and sales functions share the same ultimate goal (improving the business) but have different views on how to reach that goal, so do the service and product organizations. Furthermore, they also have different incentives as well as having different tasks and functions to realize the goal. Just like with the marketing and sales functions, the service and product organizations are interdependent which further underpins the possibility of collaboration.

Furthermore, collaboration and alignment are especially crucial to achieve in a servitization setting. The reason for this is that the deliverable - the solution - is determined by the customer's problems, which implies that the organization must be flexible enough to deliver a solution which can be delivered either from a single department or cross-departmental. In other words, the organization must be able to work together and utilize resources effectively in order to solve problems, rather than simply push out pre-determined products.

Also, as identified above the problem of low levels of alignment and collaboration often lie at management level, where managers fail to agree on the distribution of resources among different projects and activities. This is a general challenge – i.e. not specific for the marketing and sales functions - and leads to a continued negotiation game, unless all managers share the same view and vision for the future (Paap & Katz, 2004), (Christensen, et al., 2008).

2.4 RESEARCH GAP

Academic research on servitization has gained significant influence since the concept was first introduced by Vandermerwe and Rada in 1988, and increased dramatically after 2003 (Hou & Neely, 2013). Hou & Neely (2013) conducted a thorough literature review in which they researched and classified the challenges that scholars have identified and addressed in regards to servitization. Hou & Neely identified seven major barriers to servitization, of which the organizational aspect is one. Within this area, some of the main challenges presented by researchers are the need to transform into a service-orientation (Kallenberg & Oliva, 2003); (Turunen & Toivonen, 2011), addressing internal resistance to change (Vandermerwe & Rada, 1988) as well as potential internal conflicts (Mathieu, 2001).

This study addresses two overarching areas that together form the foundation for the academic relevance of this study. These areas are strategic organizing, i.e. how servitized organizations should be structured in the long-run, as well as the role of leadership in a servitization setting.

1. Following Porter (1996), organizations should ensure that each value-chain activity is mutually reinforcing as well as consistent with the overall corporate strategy. This implies striving for homogeneity in its strategic offering, as the offering should always be geared toward supporting the strategy.

   However, widely acclaimed servitization researchers such as Kallenberg & Oliva (2003); Turunen & Neely (2012) and Gebauer et al (2006) claims – at least in the short run – that the homogenous approach put forward by Porter (1996) is sub-optimal in a servitization setting. In order to servitize effectively, the organization needs to separate services from products and thus allow for two simultaneous structures. This notion is also supported by disruptive innovation theory put forward by researchers such as Chesbrough (2010). They claim that organizations must allow for co-existing structures in order to explore new possibilities while still exploiting the original business opportunity.

   The theoretical standpoints presented above put forward two opposing approaches to strategic change. However, there is a lack of previous research explaining how these two approaches should be understood in a servitization setting and more specifically whether any guidelines related to which approach to choose can be identified. Even though some researchers put forward arguments for how organizations should act, there seems to be a lack of discussion and understanding for under which circumstances the respective approaches - radical or transitional – should be selected and what specific characteristics which are inherent.

Due to the theoretical clash but subsequent lack of practical guidance that the above-mentioned theoretical approaches constitute, this study will build on these and further explore this gap, with a special focus on the practical barriers that could have implications on how the processes are carried out.

2. Following the different views of how the organization should be set up after a transformation, a number of practical implications are likely to arise. This study therefore addresses challenges related to leadership in a transitional servitization transformation. More specifically it addresses challenges that potentially can lead to internal conflicts, as identified by Mathieu (2001). Mathieu points out that a new strategy generally can lead to a fear of loss of power and defensive behavior from managers who perceive that their domain might be altered. This study takes off in the understanding of this general potential conflict, but aims to explore its implications further by studying how the potential conflicts should be understood specifically in a transitional servitization setting.

2.5 PURPOSE AND RESEARCH QUESTIONS

As servitization is widely seen as potentially having a positive impact on many companies' future business success, this thesis aims to explore the approaches and factors that are crucial to recognize and decide on in order to facilitate the servitization process. This is done with a specific starting point in the research gaps identified above. In order to do this, three research questions have been formulated and are presented below.

RQ 1: *Under what circumstances should an organization choose a radical or transitional approach to servitization transformation?*

RQ 2: *Apart from top management, which function plays the most important role in a transitional servitization process?*

RQ 3: *Are there specific leadership challenges that arise in a transitional servitization process?*
– If so, what are they?

3. METHOD

This chapter explains how this study was executed. It explains and discusses the choice of method and how it has been applied the gathering of data and the subsequent analysis. The chapter is divided into three main sections. Firstly, a presentation of the research design and the motivation behind the choice of it will be given. Secondly, a description of the data collection process will be presented. Lastly, the final section describes the generalizability, reliability and the validity of the data.

3.1 RESEARCH DESIGN

3.1.1 CASE STUDY DESIGN

This study is done within a specific area of servitization where there is limited earlier research (Baines, et al., 2009), why an exploratory research purpose is advantageous according to Bell (2006). Furthermore, Otley & Berry (2009) also argue that a case study is advantageous in areas where existing theories can be considered incomplete, which here holds true as presented in section 2.4. This study aims to address specific gaps in earlier research, which are in a certain context - the servitization process. The aim with this study is therefore not only to be descriptive but to explain why certain issues are present; how factors are dependent on the context and how they affect actions in this specific servitization setting. According to (Yin, 2009) such questions are suitable with an exploratory study. Moreover, according to Otley & Berry (1994) a case study is considered to be appropriate in an exploratory study.

Following this reasoning, this thesis is carried out through a comparative case study. Cassell & Symon (2004) argues that "*case studies are useful where it is important to understand how the organizational and environmental context is having an impact on or influencing social processes*". They further argue that a case study is useful when exploring new or emerging processes, as a case study is better to capture changes in an organization, as opposed to a survey which may be too static. As this study aims to explore and understand a transformation process, it is thus advantageous to use a case study.

Cassell & Symon (2004) further argues that a single-case study can provide valuable information about the research question, as a deeper understanding of the company and the context can be obtained through the focused approach. It can further be advantageous to add the perspective of either other cases or develop contrasts within the case. This study is therefore carried out through a single-case study with a primary case company, backed up by three secondary case companies. The primary case company has been studied in-depth, while the three secondary case companies have been used to compare and support findings, in order to provide more solid results, giving a more general understanding and decreasing potential situation-specific biases (Eisenhardt, 1989); (Eisenhardt & Graebner, 2007); (Yin, 2009). Similarly, it allows the researcher to know whether a finding exists through all cases or a specific characteristic of only one case (Eisenhardt, 1991). Furthermore, the study has also focused on contrasts within the cases, by gaining an understanding of both the product and the service organizations within the case companies.

3.1.1.1 RESEARCH APPROACH

As aforementioned, a case study design was used in order to fulfill the purpose with this study. There is often confusion between the denomination of "case study method" and "qualitative method". To clarify, a case study can take either a qualitative or a quantitative approach (University of Surrey, u.d.). This study has been conducted using a case study method with a qualitative approach. This is based on the fact that the study's research question is, as mentioned above, embedded in a servitization context. Also, Cassell & Symon (2004) and Dubois & Gadde (2002) argue that a case study using in-depth interviews is the most appropriate for an understanding of behavior and context. Furthermore, a qualitative method is suitable when trying to understand an organizational process or movement, which is the case in this study (Cassell & Symon, 2004).

3.1.1.2 METHOD OF REASONING

An inductive approach emanates from empirical observations in order to generate new theories, in comparison to a deductive approach where one derives a hypothesis from existing theory and thereafter conducts an empirical investigation (Bell, 2006; Bryman & Bell, 2011). Our choice of research topic was inspired by the existing literature on servitization. Our aim was to gather a theoretical starting point based on existing theories, research and finally to make an analysis of our own empirical findings. Particularly, we did not aim to test the validity of the theories but to instead collect them and use them as a foundation to guide our own research. Therefore, this was not a hypothesis-driven research. Furthermore, during this study theories were used in order to analyze the empirical data. The approach used during this study was therefore neither purely inductive nor deductive in nature. Rather, the research was grounded in the theory, followed by studies of the reality with collection of empirical findings, and returned to theory to better adapt it to reality. According to Alvesson & Sköldberg (1994) this refers to an abductive approach. Furthermore Dubois & Gadde (2002) argue that this 'systemic combination' is suitable as theory and empirical observation cannot be understood in isolation. Moreover, Otley & Berry (1994) also emphasize that it is important to remember that observations are not themselves free from theory.

3.2 DATA GATHERING

3.2.1 SELECTION OF CASE COMPANIES

In order to make an informed selection of case companies and better understand the concept of servitization in practice, the authors engaged a sounding board with great experience in the subject. The sounding board consisted of a partner and a project manager at a global leading American management consulting firm that has great experience in advising on transformation processes. The sounding board provided general insights in the area, as the members were specialized in business-to-business sales and servitization, and also provided valuable input on the selection of case companies, as they could advise on comparability and current transformation processes.

The case companies included in this study were selected through a process which started out by desk research into the area of servitization. A list of possible case companies was subsequently compiled and discussed with the sounding board, which led to the selection of the primary case company. Criteria for the primary case company were that it should be a typical product company which had initiated its servitization process following a clear strategic decision. Furthermore, as previous research is primarily based on large, multi-national companies, it should preferably have these characteristics in order for theory to be applicable. Finally, the company needed to express a willingness to participate actively in the study, as the research would require a large extent of accessibility to various levels of the organization.

When the primary case company had been selected, a process of choosing the secondary case companies was initiated. The criteria for these companies were largely the same as for the primary case company, but with a special focus on the dynamics between the companies. In order to make good comparisons and avoid situation-specific biases, further criteria were that the companies should be in different industries and in different stages of their servitization. This led to the three secondary case companies included in this study. Table 3 shows the chosen companies and which industry they belong to.

LIST OF CASE COMPANIES

Case name	Industry
Primary Case Company	Industrial
Secondary Case Company 1	Telecommunications
Secondary Case Company 2	IT
Secondary Case Company 3	Entertainment

Table 3: List of case companies included in this study

3.2.2 INTERVIEW APPROACH

To ensure that the data gathering is suitable and supports the research design, it is important to understand different approaches and their respective strengths and weaknesses. Fischer (2010) describes different types of interview techniques. One method is to use open-ended questions (unstructured interviews), another to use closed and predefined questions (structured interviews). A third method is known as a semi-structured approach, which was used in this study. A semi-structured approach can be understood as a combination of the two aforementioned interview approaches (Alvesson, 2011; Fischer, 2010; Merriam, 1994). The reason behind choosing this approach is twofold. Firstly, the interviewee can speak more freely about the subject, which increases the possibilities to get a more holistic picture of the situation. Secondly, the interviewee might more easily reveal delicate information (FAO United Nations, 1990).

The interview questions in this study were therefore prepared beforehand, but not always followed to a full extent. The interviews were rather of an approach where unexpected discussions related to the subject often occurred. Furthermore, the purpose of the interview questionnaire served more as a checklist to ensure that all topics had been covered rather than detailing each question and the order they appeared. Following this reasoning, a decision was made together with the case companies to completely anonymize both the interviewees and the companies in order to make the interviewees feel confident and secure to talk openly. This approach was also very important when interviewing management representatives, who otherwise would have been disinclined to talk freely about potentially sensitive organizational or departmental information.

Moreover, all interviews were taped after permission from the interviewee and could therefore be re-examined later on. Under circumstances where more information was needed or where uncertainties occurred, the interviewees were contacted again and asked to clarify.

3.2.3 SELECTION OF INTERVIEWEES

This study consists of 29 in-depth interviews, distributed across the four case companies. Several aspects were considered when making the selection of interviewees, in order to ensure a suitable sample for this study. Firstly, as a servitization process continues for a long time, the interviewees should cover different time spectra of the process (i.e. employees working for the company either before and/or during the transformation). Secondly, to make sure that a comprehensive understanding was gained, and not a single person's view, people having different roles and working on different levels were chosen. Also, a special consideration was taken to ensure the inclusion of representatives from both the product and the service organization, in order to gain a comprehensive understanding of both parties' views. A complete interview list is found in the appendix.

3.3 EXCELLENCE OF STUDY

3.3.1 GENERALIZABILITY

As aforementioned, a case study is a suitable method to apply when conducting exploratory research. However, the method has its advantages and disadvantages. One disadvantage is the risk that the study will lack generalizability. The researchers agree that this might be the case and does not claim that the findings will be completely generalizable. However, the case study has taken steps to ensure that situation-specific errors or biases are identified and eliminated by including several companies from different industries as well as striving to identify different internal perspectives by including different functions, levels and steps in the processes. This increases the likelihood that the findings can be seen also in other research settings with different conditions.

3.3.2 RELIABILITY

Another important topic to discuss is the accuracy of the study in terms of whether the study's results can be re-created using the same methodology and achieving the same results. This is a concept described by Miles & Huberman (1994) as the *reliability* of the study. To increase the possibilities to replicate the study, the authors have presented the methodology used in a transparent way by explaining the research background, the collection of data and the analytical tools applied. Furthermore, being a pair of authors further increases the potential of replicability as it decreases likelihood of subjective interpretations. This can be exemplified by the way that the interviews were carried out. Immediately after an interview, the authors wrote an individual summary. They then reviewed it after listening to the audio transcript before finally comparing with the other author and discussing any differences. If there was a need for clarification, the interviewee was consulted and asked to clarify in order to avoid erroneous subjective interpretations.

However, there will always be limitations to the replicability of a qualitative case study as it is depending on – and understood through - its contextual setting (Cassell & Symon, 2004).

3.3.3 VALIDITY

Kvale (1989) and Bryman & Bell (2011) argue that it is difficult to determine whether a qualitative study is trustworthy since the social context is ever changing. In order to still reach the highest validity possible, the interview questions have been re-formulated during the research as the study's theoretical base has been developed. Additionally, as mentioned above, all interviews were taped and could therefore be re-examined afterwards. Under settings where more information was needed or where uncertainties occurred, the interviewees were contacted and asked to clarify certain topics. Furthermore, in order to enhance the quality of the interview answers, the main topics that would be discussed were sent to the interviewees before the interview. This made it possible for the interviewees to reflect about the topics and if needed, to find the right information to back up their arguments. Additionally, the process of selecting interviewees specially emphasized finding interviewees covering different time spectra of the servitization process, with different roles and on different levels within the organization. The selection process also ensured inclusion of representatives from both the product and the service organization, in order to increase the validity by including both affected parties. By doing this, a more holistic view of the relationship between the organizational structures and the servitization process can be identified.

Moreover, we have also ensured the validity by comparing the primary case companies to three secondary case companies. The case companies are active within different industries and exist within different contexts, which would help to decrease the possibility of situation-specific biases. In order to further decrease the likelihood that primary data has been misinterpreted or lack certain perspectives, secondary data in the form of websites and analyst reports have been used as a complement.

4 EMPIRICS

This chapter describes the empirical findings of the study. The chapter is divided into sections covering each case company. For each case company, there is a description of the background of the company, its servitization efforts and the organization of its product and service organization.

4.1 PRIMARY CASE COMPANY

The following text is based on secondary sources (website, analyst reports etc.) as well as primary sources, consisting of the interviews conducted at the Primary Case Company. Please see the appendix for a detailed interview list.

The *Primary Case Company* is a listed leading manufacturer of industrial equipment. The company has a global presence in more than 100 countries and is expanding heavily. The company has for a long time faced an increasing number of competitors – especially from countries with low cost of production, such as China. Those competitors specifically are very skilled at adopting new technologies and imitating current products. Furthermore, the company started to look into alternatives to secure their business as they faced competitors that were selling counterfeit spare parts. The company therefore took a strategic decision around the turn of the millennium to work more with services, in order to increase its revenues and making it harder to imitate its offering.

The company thereafter focused on selling *solutions* through more holistic contracts including both products and services such as repairs, preventive maintenance, spare parts, calibration of tools and machines, training and remote analysis. This helped them make sure that their original spare parts were sold as well as being able to earn money from labor. However, all managers did not fully support the new strategy at this point of time. Interviews reveal that employees were doubtful that services could provide the company with the same share of revenues and profit margins as the products could.

Furthermore, the organization noticed from the beginning of the service era that it was difficult for the product sales force to sell services. Interviewees believe that this was because the product sales force was used to selling tangible products which were rather easy to explain the value of. But, when selling intangible services, it became more difficult to communicate their value. Nevertheless, as the service offering was rather basic in the beginning, many sales managers were able to sell this but as the offering developed and got more complex the managers did not know how to deal with and sell it in an appropriate way. Consequently, around the year 2000 the top-management fired many sales managers due to poor results.

Until 2007, only two people were in charge of the whole service organization on a Group level, dealing with everything from marketing to logistics. At that time the service organization's turnover was around 300 MSEK. The sheer size of the organization thus made it difficult for just two people to handle. Furthermore, the service organization's steering committee argued it was highly important to make the Profit & Loss statement (P&L) transparent to make sure no losses were "hidden" in the revenues belonging to the other division. Also, the company noticed that working with services required a different focus and skills set compared to when working with products. Interviewees state that a service organization needs to be even more focused on operations than a product organization to become successful. Areas such as turnaround times of repairs, logistical supply and general efficiency were seen as extremely important in the service organization. Furthermore, product development was seen as important in a service organization (regarding service products), but even more important in a product organization as a key focus is the product's functional efficiency. The different ways of selling also imply that the sales forces need separate skills, as seen above. Moreover, management feared that if the service organization would continue to be a part of the product organization, they would become marginalized following a lack of focus and resource constraints, but also due to practical reasons such as differences in sales cycles, where services in general have longer sales cycles than products. Because of these insights, the company created a separate Service Division.

The company observed early on that the demand[12] for solutions varied among countries and customers, and that everyone did not understand the value of buying solutions. The interviews revealed that the maturity level[13] for buying solutions is affected by several factors. Firstly, solutions often cover many different budget areas of the customer's budget as it is affecting several functions. This makes the customer's decision process more complicated as many people need to be involved and agree to the full solution. Furthermore, interviewees across the organization state that the customer's procurement function often perceive this as complicated and prefers to hold on to their current system of buying. Secondly, often the current service is done by the customer itself. This makes the selling process difficult as the contact person commonly is the one that would lose its job or authority if the customer buys the offering. This is because many solutions imply outsourcing of specific areas and the customer's employees might have to leave. Lastly, many customers have been used to the fact that service has been for free in the earlier scenario where services were there to support product sales. When the company started to charge money for service, many customers became negative as they were used to have it for free. The company therefore put a lot of capabilities and resources into learning from,

[12] Definition of demand: Whether a customer has a need for and wants to acquire a solution.
[13] Definition of maturity: The existence of necessary infrastructure and understanding of the value of solutions

educating and communicating with the customers. However, even though the maturity level for buying services has been increasing, there is still a long way to go.

Today, many customers interact with employees from both the product division regarding products but also with employees from the service division regarding services (see Figure 4 below). Employees have recently (from 2013 and onwards) voiced concern that customers think it is confusing and inconvenient to have multiple contact persons, based on the amount of negative comments they got from customers about this phenomenon. Furthermore, they also expressed concerns about the issue as they believe this affects customer satisfaction.

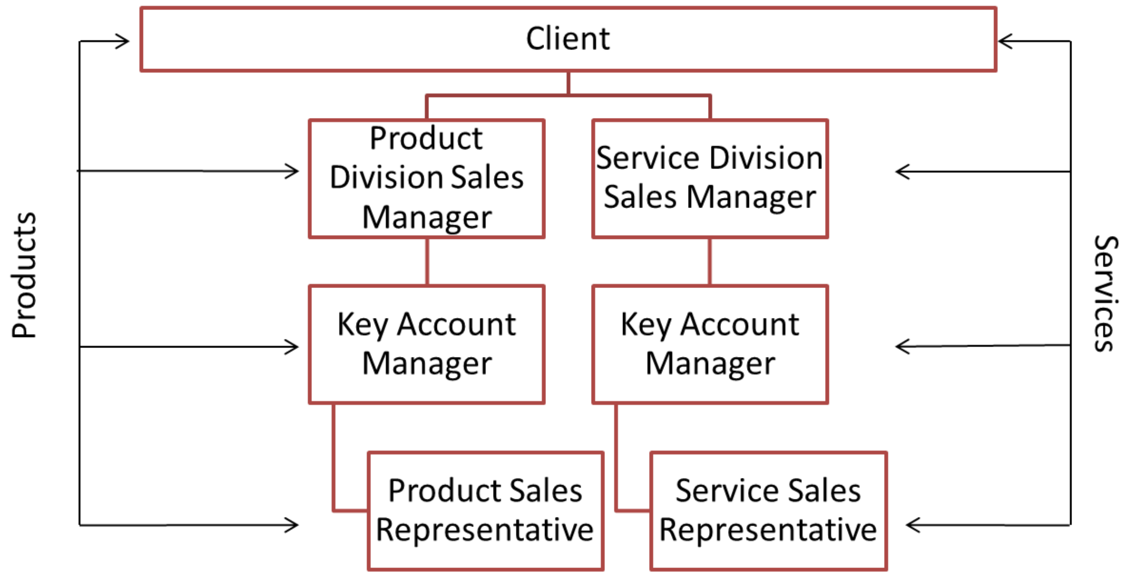

Figure 4: The Primary Case Company's current client-facing organization within one Business Area (Simplified for clarity)

Interviewees describes that there has been and still is skepticism towards the Service Division within the company. Management has often been resistant in providing the service organization with resources and even though top management now fully supports servitization, many employees have not until recently understood how services can create business at all. Interviewees describe that internal trust and status is created by proving yourself by providing actual growth and profit within the company. Therefore, they believe that there is an increased trust in services due to the proven revenues and profits that they have created during the years, but that there is still a long way to go before being on an equal footing with the product organization.

The Product Divisions still remember when the service employee was merely a support to the product sales force, and thus "for free" for the customer. When the Service Division started to charge money for their labor time, the interest from the product sales force to collaborate with them decreased. Additionally, employees from the Service Division describes that service has been a place where other divisions allocated costs and work that no one else wanted to deal with.

The long-standing low status of the Service Division has also created difficulties to find and recruit the right employees internally and many employees have therefore been recruited from external organizations, which is unusual for the company. However, the Service Division management describes that the Division's status is increasing but their focus is to increase it even further as it is far from equal to the Product Divisions.

Top management is also aware of the aforementioned problem with multiple contact persons for each client and believes more collaboration can decrease the customer's confusion. Additionally, they believe that collaboration between the sales forces will increase the status of the Service Division and that the sales forces can give leads about new business opportunities to each other and thereby increase revenues. Moreover, service managers within the company have recently discovered that the most successful sales representatives are the ones who collaborate the most with other divisions and areas within the company. Management has therefore recently decided to start working with increasing the level of collaboration within the entire business area, as they believe a more integrated sales force can give better information about the customers to create better offerings and to increase customer satisfaction. There is now a united view within top management to encourage inter-divisional collaboration.

However, the interviews reveal that the fundamental structures to support the management's views are not in place. A clear example of this is that the product sales force often feels that the service sales force takes away sales from them. The reasoning behind this argument is that many service products extend the life-time of the customers' existing products. According to the product sales force interviewees, this is a barrier to sell more products.

The service sales force, on the other hand, state that they feel diminished and looked down upon by the product sales force. Reasons for this are that the product sales force do not invite them to valuable customer meetings and that the product sales people allegedly view them as second-rate employees. An example of this is that interviewees from the product sales force state that the service sales force is less efficient and less skilled in their work.

Furthermore, even though a small minority of the interviewees have realized the value of collaboration, most interviewees (both product and service) express that they do not see the value of collaborating with the other divisions and that they do not want to increase collaboration. As one interviewee puts it:

"*Information is not shared in-between the divisions and there is no collaborative spirit*"[14].

Despite these findings, there are currently no key performance indicators (KPI's) or incentive systems supporting collaborative behavior. Moreover, the product sales force's incentive systems are designed to exclusively reward *product* sales, while the service sales force's incentive systems are designed to exclusively reward *service* sales. Based on the above, the product sales force interviewees express that the service sales force impede them from reaching their targets and getting their commissions.

[14] Interview with Regional Sales Manager, Service Division, 2014-02-14

4.2 SECONDARY CASE COMPANY 1

The following text is based on secondary sources (website, analyst reports etc.) as well as primary sources, consisting of the interviews conducted at Secondary Case Company 1. Please see the appendix for a detailed interview list.

The *Secondary Case Company 1* is a listed leading information and communications technology (ICT) company, providing equipment, software and services to mobile and fixed network operators on a global scale. The company has its background in providing equipment for the telecom industry but took strategic decisions to venture into increased service offerings (such as risk management, transformation advisory, up-time solutions etc.) following global competition in the late 1990's. The competition stems primarily from countries such as China, with low cost of production combined with a skilled workforce that quickly adapts to new technologies and imitates existing products.

The company was up until the 1990's a purely engineer-driven company, focused on delivering top-tier products. Services were seen as a support function to product sales and were quite simple, such as maintenance and operations.

When the service offering was expanded, the organization noticed that it became harder to keep services within the product organization. Several reasons for this were cited, for example that the service organization was initially just a fraction of the product organization in size which led to concerns about whether it would receive sufficient support. Furthermore, the two sides had differences in both working styles and necessary skills sets which caused issues concerning flexibility and structures within activities such as business applications, recruiting and customer relationship management.

Today, interviews reveal that there is a divided view of the company and its strategic priorities internally. Product sales (equipment) are still at the very core of almost every offering, but the importance of the products in relation to services is widely debated, even though they now have separate P&L which allows for profitability tracking.

Some managers believe that the future of the company relies solely on its ability to develop its service offering, as this is where a Western company can find a sustainable competitive advantage over its Asian competitors. These managers claim that a good service offering can increase margins, as it is harder to compare the price of services across different providers. They believe that in order to do this, the company must integrate its divisions better and break down resistance to inter-divisional cooperation.

Other managers believe that the future of the company is – and always has been – dependent on its ability to produce and sell high-quality products. These managers claim that the company has a unique position to manufacture products based on high-quality material and cutting-edge technology, which competitors cannot match right away. The quality of these products is enough to justify a price premium, which the customers understand and are willing to pay. According to these managers, services can be a complement to the product offering but the products will always be the main driver of the company's revenues. They believe that it is downright wrong to focus more on services than products and one interviewee expressed a wish that the next CEO will be a "*product engineer person*" rather than a "*service-hugging business guy*"[15].

The interviews reveal that the service and product part of the organization has more than just a different perception of what drives value in the company. For example, the product side claims that service units make it harder for product sales, by increasing the life-time for example, while the service side claims that the product sales force sometimes give away services "for free", which reduces the value of the services when sold on a stand-alone basis.

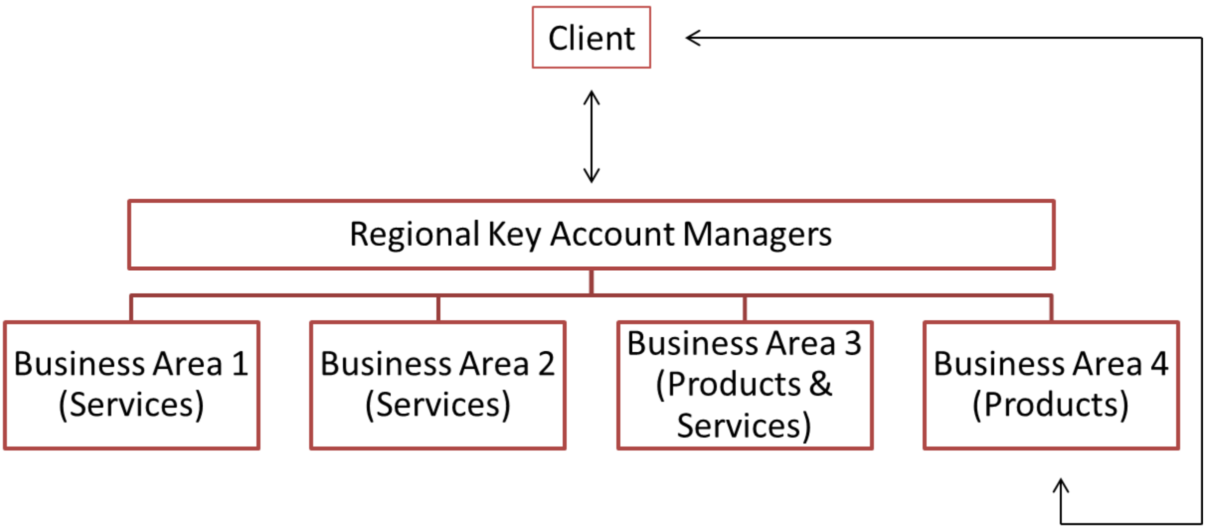

Figure 5: Secondary Case Company 1's current client-facing organization

Figure 5 above shows the company's externally communicated client-facing organizational chart. The Key Account Managers are responsible for internal coordination in order to put together a solution to present to the client. However, interviews reveal that this chart is not always correct and that there are deviations to how customers interact with the company. Especially the product side claims that many customers interact with them directly, regardless of whether they are supposed to go through a Key Account Manager or not. The reason for this is according to interviewees both challenges related to internal collaboration between the KAMs and the business area but also that customers often prefer direct interaction as they have

[15] Interview with Head of Business Unit, 2013-05-15

multiple buyers internally, representing different budgets and different priorities, who prefer to buy one product at a time rather than a full solution.

4.3 SECONDARY CASE COMPANY 2

The following text is based on secondary sources (website, analyst reports etc.) as well as primary sources, consisting of the interviews conducted at Secondary Case Company 2. Please see the appendix for a detailed interview list.

The *Secondary Case Company 2* is a listed IT-corporation with a strong global footprint. The corporation has its background in manufacturing of hardware but ventured into services such as software licenses and consulting following a strategic decision in the late 1980's, as global competition in the hardware space increased. The corporation saw that they could retain more clients and raise margins if they added services and have since worked hard to integrate this as a natural part of its offering, while still keeping its leading position within hardware and software and with products responsible for a big share of its revenues.

Figure 6 below shows the corporation's Nordic client-facing organization. As can be seen in the picture, the corporation has established a layer of Key Account Managers (KAMs) that are supposed to be the client's only point of contact within the organization. The KAMs have a cross-functional servitization mission and are thus encouraged to foster long-term relations with clients. This means that they are evaluated annually and that they can participate in large and time-consuming procurement processes that can bring significant return if won. In order to do this, the KAMs are supposed to coordinate with each Business Area (BA)'s sales team to be able to present a holistic solution to the client. By coordinating and presenting a company-wide solution, the corporation believes that it can raise its margins and win bigger contracts.

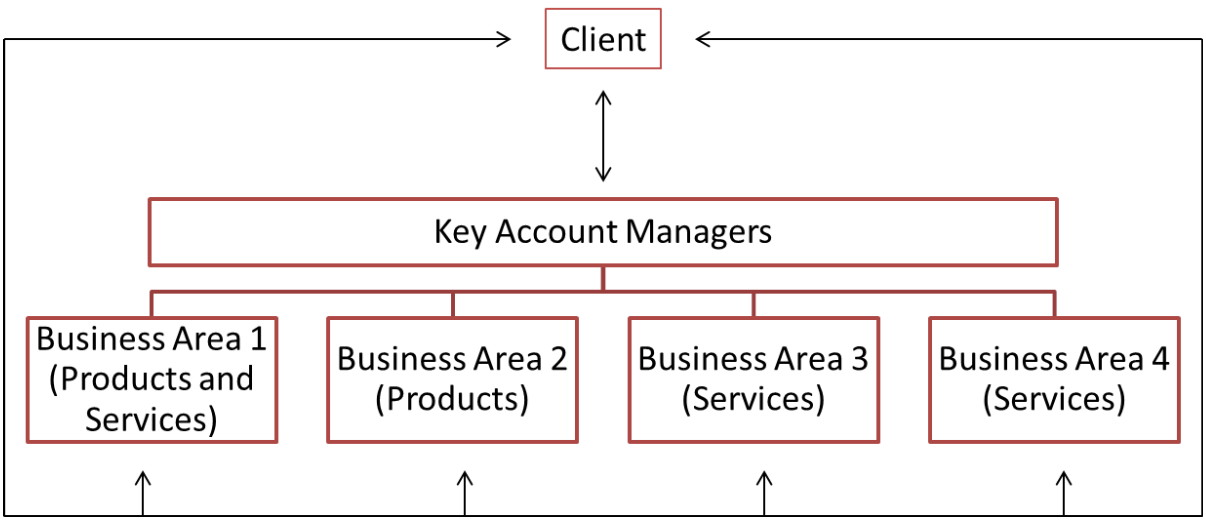

Figure 6: Secondary Case Company 2's current client-facing organization

However, this does not fully work in practice as each BA has its own independent management team as well as an independent sales team which faces clients on a regular basis. These teams are evaluated and incentivized quite differently compared to the KAMs. Judging from the interviews, it is clear that the BAs experience a low level of cross-BA integration and that especially the product divisions have a negative view of the notion of increasing this integration.

Each BA has full P&L responsibility and is evaluated continuously as it is a listed company. The BA sales teams are evaluated accordingly and their incentive systems are designed to reward sales volume on a quarterly, monthly or weekly basis. Interviews reveal that the BA sales teams find that it is impossible to solely rely on the business that comes via the KAMs, as these contracts can take months to close. As the incentive systems reward short-term sales volume, these sales teams often cut out the middle-man (KAM) and negotiate directly with clients to close deals faster. Increased integration between BAs or increased cooperation with KAMs is viewed as more of a threat than an opportunity as they believe that a deal's time-to-close would increase and that they therefore would have a hard time reaching their short-term sales quotas.

4.4 SECONDARY CASE COMPANY 3

The following text is based on secondary sources (website, analyst reports etc.) as well as primary sources, consisting of the interviews conducted at Secondary Case Company 3. Please see the appendix for a detailed interview list.

The *Secondary Case Company 3* is a listed entertainment group that is in turn part of a global conglomerate. The company is almost exclusively focused on the music industry and is one of the world leaders in the area. When the sales of CDs peaked in the late 1990's, the company was a powerhouse both in terms of number of employees as well as profits. However, the rise of file-sharing services such as Napster and Kazaa dealt a striking blow to the company as sales of physical products (CDs) decreased rapidly.

Interviews reveal that the fall of the corporation's core money-making product was especially hard in Scandinavia, accredited to a large share of internet users and a population of early adopters. At first, the company tried to battle the digital revolution with legal processes, Digital Rights Management (DRM) etc. However, as Scandinavia and particularly Sweden represented a relatively small market in terms of contribution to the Group's overall revenues and the fact that the Swedish music market crashed much faster and harder than other markets, a strategic decision was taken on Group level to give the Swedish subsidiary more freedom to experiment with possible proactive solutions.

As the original physical market almost evaporated in just a few years, the organization needed to downsize and restructure fast. In the beginning, everything that was unprofitable was thrown out, which included creative and digital services. The physical products were still profitable, and therefore a large part of the physical products organization remained in place, even though management realized that this was not the future. As the decrease in physical sales continued, management eventually realized that the current organizational structure was unsustainable and tried to expand the digital area to match the illegal platforms' successes.

However, the development of the digital sales area went slower than expected. After a while, top management realized that this was still an internal organizational problem, as the Head of Digital reported to the person in charge of overall sales, of which the bulk still came from physical sales (see Figure 7). This meant that the Head of Sales had no incentive to increase digital sales as this would draw resources and possibly cannibalize on the physical sales. Top management therefore realized that they needed to separate digital from physical, which led to a more rapid development of the digital area.

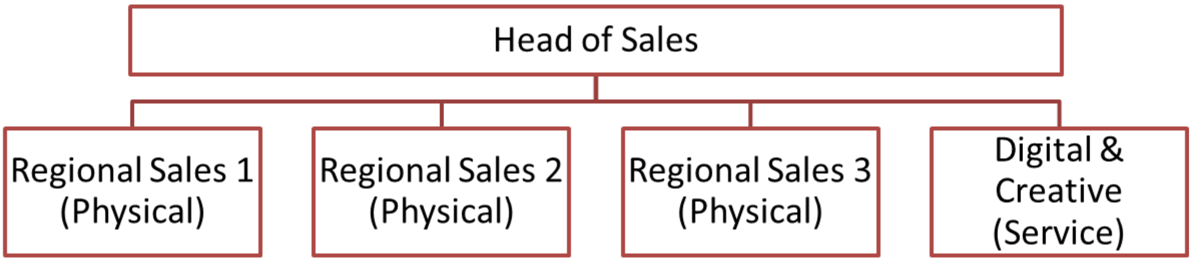

Figure 7: Secondary Case Company 3's Pre-transformational sales organization (simplified for clarity)

After trying out some less successful ventures, such as cooperating with telecom firms and trying to establish their own music platform, the company engaged heavily in end-customer surveys to understand why Swedes in particular were so prone to download illegally. One of the main answers turned out to be *convenience*, as end-customers wanted all their music in one place. Therefore, when Spotify and other similar streaming services wanted to launch in Scandinavia, the company decided to support it by signing licensing contracts.

The shift from physical products to digital solutions has brought a complete change in how the company is organized. The product sales function was organized in a traditional sales organization based on geographical areas with sales quotas and targets for each new album release. The customers were mainly department stores and specialized CD-stores. The company had limited to no interaction with the end-users and therefore negotiated directly with the stores, to maximize sales by in-store promotions, physical placements etc. The sales organization was incentivized by quotas and targets based on album releases.

Today, the organization is transformed to fully support holistic services and solutions. Spotify and similar services are both customers and business partners as they are used for both sales and marketing, which has demanded an increased level of alignment and collaboration between departments. Strategic KAMs are in charge of developing the long-term collaborative relations with the platforms which means that they are involved in sales as well as marketing and strategy. A reason for this holistic view is that artists are now measured from a lifecycle perspective, as opposed to before when each album release was measured as a separate project. The reason for this is that people re-discover an artist's old tracks when a new album is released, which means that a new album can fail to meet expectations but still contribute positively due to an increased interest for the rest of the artist's work.

The possibility of measuring and tracking customer behavior has also been a driver of the organizational transformation. The sales and marketing functions cooperate more as they can both see how users interact with the music in real-time and thus tailor the experience by adding high-impact promotion. This increased cooperation has also been made possible by employee and information flow between departments, as sales force staff have moved to marketing and the other way around. Following this, the company has been able to foster positive, long-term relationships with its customers, such as Spotify, which even has led to collaborative business development.

4.5 EMPIRICAL SUMMARY

As can be seen throughout the empirics, all of the case companies have initiated servitization processes following strategic decisions. Furthermore all case companies except for Secondary Case Company 3 still have a large revenue stream stemming from their pure product offering. The Secondary Case Company 3 is the only company which has seen a drastic change in their end-customer behavior. Following this change, demand for their original product offering decreased rapidly, which according to interviewees forced the company to fundamentally change their business model. The new business model revolves around internal collaboration and alignment. In order to achieve this, strategic initiatives such as an organizational restructuring were introduced, which in turn brought new ways of working and removed contradictory goals.

The other case companies have not seen this drastic shift in customer behavior. In fact, many interviewees across organizations claim that many customers have not seen the full potential of services and solutions. In addition to this, interviewees claim that many customers do not have the resources and capabilities to purchase solutions, as this would require a transformation within procurement departments.

As seen above, the other case companies have a lower degree of internal collaboration and alignment. Some interviewees express clearly that they do not collaborate with other functions. Furthermore, some of these case companies experience different views on the importance of servitization among management. There are also contradictory structures present, such as incentive systems and goals rewarding conflicting activities.

5 ANALYSIS

This chapter uses the literature review as its starting point and applies and analyzes the findings found in the empirics. The chapter is presented in the same structure as the literature review and is thus divided into three sections.

The first section covers the strategic level applicable to a servitization process and the reasoning that follows. It presents and analyzes the notion of radical and transitional change and consequently addresses the first research question, which aims to understand under what circumstances the different approaches to change are applicable.

The second section covers organizational collaboration and alignment and starts off by addressing the second research question, by investigating which organizational function that is the most important to address in a servitization process.

The third section takes on the more practical aspects of a servitization process by addressing concrete leadership challenges and barriers. The section thereby addresses the third and final research question to understand which leadership aspects are the most important to address.

5.1 STRATEGIC FIT: RADICAL OR TRANSITIONAL CHANGE

As seen in the previous chapter, every case company has taken strategic decisions to focus on servitization as they believe it is a necessary step to battle increased price competition, and see it as a way to increase profitability. Following Porter's (1996) reasoning that the whole organization should be geared towards supporting and contributing to the overall corporate strategy, it would be expected of the organizations in this study to concurrently have reorganized the whole organization in order to fully support a servitization strategy.

As stated above, optimal strategic fit and reinforcing activities, as defined by Porter (1996), would be achieved if the whole organization was geared towards supporting the servitization strategy. However, in the empirical section it becomes evident that this reasoning has not fully been implemented in practice. In fact, every case company except for one (Secondary Case Company 3) are still dependent on the revenue that stems from pure product sales, derived from a solid customer demand in this area. For these three companies, the original organizational structures are optimized to support the original product manufacturing strategy and they therefore seem to be disinclined to break up the existing structures just to optimize a still minor revenue stream (solutions).

The empirical section shows that the reason for why the organizations believe that pure product sales will remain an important revenue source for the time being is due to the customers' relatively low level of acceptance and maturity in relation to adopting a solutions mindset. This can be explained by the way that services and products have traditionally been sold. As can be seen in the empirics, both buyers and sellers are used to the traditional way of doing business which implies that a change to buying a solutions bundle including both service and products will take time. This is not only related to the fact that customers have not always understood the value of buying solutions, but also regarding specific barriers to purchasing solutions even if they understand the value. The case companies cite characteristics of services and products such as sales cycles, contact persons and budgets as key differences and barriers. As procurement departments in most cases are not used to processing solutions orders and as cross-departmental solutions require cross-functional budgets, which are not in place, customers have often not reached the maturity needed for the case companies to fully implement a radical servitization transformation.

However, when this is not the case, i.e. when the customers change their mindset by moving away from the original way of purchasing, it becomes more feasible, and sometimes even necessary, to perform a radical transformation. This can be seen in Secondary Case Company 3, where the end-customers suddenly changed behavior and moved away from the original way of purchasing, thus forcing the organization to react and follow suit. Even though this is clearly an enormous challenge for the organization, as it needs to completely transform its business model, it also makes the servitization process less complex. This is largely due to the role of the customer, which here already demands solutions and possesses a sufficient level of maturity. The transformation process therefore has an internal focus – such as changing internal structures and business model - as opposed to a transitional process which requires changing both internal structures while also educating the customer.

A transitional approach can therefore be seen as more complex process-wise, but over a longer time perspective than the radical approach due to the co-existence of structures. The other cases (The Primary Case Company and Secondary Case Company 1-2), has a clear need for a transitional approach, as customers are still to a large extent purchasing products and services separately. Radically changing the organization would therefore risk alienating customers and losing business. Therefore, as the original structures are set up to optimize the product organization, the companies need to seek ways to improve the servitization support within the existing structures, which thus will not entirely be in line with Porter's suggested approach.

Due to the above reasoning, servitization in cases where product sales still represent a viable business opportunity (The Primary Case Company and Secondary Case Company 1-2) seems to require a more transitional approach. This would imply finding a solution where the two strategies and structures can co-exist. If successful, this would create a situation following Chesbrough's (2010) reasoning where the organization can exploit the existing product-sales while at the same time being able to develop solutions. However, as becomes clear in the next section, organizations struggle with this dualistic thinking.

5.1.1 SECTION SUMMARY

This section has shown that organizations whose customers have a low demand and a low level of maturity related to purchasing solutions are poorly suited to transform radically. These organizations are still dependent on the pure product sales, as they constitute a large part of the organization's revenues. Therefore, it would not be advisable to change this structure radically as neither the organization nor the customers would welcome the change. This could in turn lead to a loss in revenue that could severely impact the organization's chances of survival.

Consequently, in cases where customers have already accepted and adopted a solutions mindset, our empirics show that it is necessary to consider a radical change in order to keep up with the customers' demand, as they otherwise could move to another, more agile, provider.

5.2 ORGANIZATIONAL COLLABORATION AND ALIGNMENT

The above section describes the strategic considerations that an organization must take in a servitization process, and analyzes the circumstances that require either a radical or transitional approach. Following the reasoning above, it is evident that a transitional approach is more suitable for organizations where customers have a low level of servitization maturity and demand which, as aforementioned, makes the servitization process more complex. The following sections will therefore focus on the transitional approach to explain specific challenges that such organizations encounter.

Following the discussion above, it can be concluded that customers play a key role in servitization transformations. They will determine the success or failure, as they – by choosing to buy or not - decide whether the organization has put forward a solution to their problems which also fit the way they want to make business. The function where the transformation can be viewed the most clearly is therefore the function that is responsible both for listening to, learning from and educating the customer, as well as being in charge for putting together a compelling solution to the customer's problems. This function is obviously the sales function, as they are the function within the company with the explicit task of interacting with the customer, as explained above. They can further be seen as the sum of the organization's total value chain-activities, in the way that the sales function determines the customer's view of the organization's capabilities.

A truly customer-oriented solution can only be delivered if the sales function has an intimate knowledge of not only the customer's problem but also of the own organization's capabilities. In a servitization setting, the ability to coordinate and collaborate with the various parts of the organization becomes crucial, as the aim is to sell a solution. This follows upon the reasoning of Shapiro (2002); Kotler et al (2006), among others, who claim that increased internal alignment and collaboration increases both organizational efficiency as well as overall profitability.

Based on the advantages of internal alignment and collaboration presented above, it would obviously be of importance to recognize this in a servitization setting. However, co-existence in this form seems to bring some specific challenges. Firstly, even though many customers are not at this point ready to buy cross-functional solutions, some are. These should therefore be serviced in a way which convinces them that the organization in fact can deliver solutions at least as well as they have previously delivered products. As can be seen in the empirical section, the reason for this is that the customers otherwise may either turn to another provider or keep purchasing products and services separately. This would counter-act the whole reasoning behind servitization, which is to increase margins by providing solutions.

Research indicates that a number of challenges are likely to arise when an organization sets out to increase cross-functional alignment and collaboration. However, if these are successfully addressed, the organization will likely reap the rewards of increased performance (Shapiro, 2002). In order to realize the long-term goal of servitization, the organization must thus address potential alignment and collaboration challenges over the long run. As the organization should strive to provide more and more solutions, the structures must over time be changed accordingly in order to support this change.

In the empirical section, it becomes clear that the alignment and collaboration is lacking in the organizations which are servitizing transitionally. A clear example of this can be seen in the Primary Case Company, where interviewees testify that the level of internal collaboration is low. The different functions do not share any customer-related information and explicitly state that they do not collaborate. Besides this, interviewees from across the organization also state that they do not see how they would benefit from increasing collaboration.

5.2.1 SECTION SUMMARY

This section starts out by recognizing the vital role that the sales forces play in a servitization process. This follows on the understanding of the importance that the customers have by ultimately deciding whether the organization has convinced them that the enhanced offering has led to increased value. The sales function is further crucial as they are responsible for coordinating internally within the organization in order to present a compelling solution to the customer.

As can be seen in the examples from the empirical section, there is clearly a dissonance between the importance of alignment and collaboration as identified by previous research and to the extent it is viewed as important in practice. Previous research stresses that in cases where two separate functions are interdependent and strive towards the same goal, but have different ways of working, they should increase their alignment and collaboration (Shapiro, 2002). However, in order to collaborate more, a number of challenges must first be addressed and removed (ibid.). These will be addressed in the next section.

5.3 CHALLENGES RELATED TO LEADERSHIP

5.3.1 SEPARATING THE SERVICE AND PRODUCT ORGANIZATION

The previous section analyzes why alignment and collaboration is important in a transitional servitization setting and also point out that the sales function is the most important group to address in a servitization process. Following this finding, this section will further examine how servitization is carried out in practice, with a special focus on leadership implications.

The main theories on servitization suggest an initial separation of the product and service organizations, including establishing separate sales forces (Kallenberg & Oliva, 2003); (Baines, et al., 2009); (Gebauer & Friedli, 2005); (Gebauer, et al., 2006); (Turunen & Toivonen, 2011). The empirical findings reveal that separation is indeed a popular way to advance the servitization efforts. As has been put forward in theory, there are a number of reasons for why organizations choose to separate services into an own function. These were presented in Table 1 in section 2.3.2. The empirical findings are clearly in line with the identified reasons for separation, as most reasons are applicable to the case companies.

The first identified reason for separation is a fear that the service organization will otherwise be suffocated in the – at least initially – larger product organization. This was found to be true in the empirics as companies considered this factor important when deciding how to carry out or improving their servitization efforts. This fear was largely related to the subsequent reasons, where the companies saw that the service organization for example needed different routines in order to allow for differences in working styles, but also that they needed management attention and resources in a way which could easily be lost if they stayed in the product organization.

The second and third identified reasons for separation are differences in working styles and differences in skills sets. These reasons are related to the fact that services require a different mindset, especially in terms of how these are sold. For example, selling intangible goods demand a different way of communicating value as compared to when selling tangible products. This also has a bearing on the skills that are required. For example, developing services require an understanding of how a service best can be designed to increase overall process efficiency, as opposed to a product which most often is designed for functional efficiency.

The fourth reason is that organizations want to make P&L more transparent. The reason for this, as has been identified in the empirical section, is that there is a fear that profits and losses from either services or products can be hidden in an overall P&L unless they are separated. When separated, the organization can see clearly how the servitization efforts progresses by following the P&L. By assigning full P&L responsibility to services, the management also sends an important signal to the organization that this is a transformation which should be taken seriously.

The reasons for separation as identified by previous research are visualized in Table 4 below. This also includes a breakdown of whether these reasons were contributing to the case companies' decisions to separate its service and product organizations.

	Primary Company	Secondary Company 1	Secondary Company 2[16]	Secondary Company 3
Reason for Separation				
Avoid that services gets suffocated in the larger product organization	X	X	-*	X
Differences in working styles between products and services	X	X	-*	X
Differences in required skills sets between products and services	X	X	-*	X
Make service P&L more transparent	X	X	-*	-

Table 4: Driving forces behind the decision to separate services and products in a servitization setting. An "X" means that the empirics show that the reason contributed to the organization's separation decision

5.3.2 CHALLENGES TO INCREASING COLLABORATION AND ALIGNMENT

Separating the product and service organization is believed to lead to a number of advantages in the servitization process, as identified above. However, separate functions also imply both physical and psychological boundaries between the two that could lead to challenges (Shapiro, 2002). Even though there is limited specific research on the leadership effects of a separation in a servitization setting, there are a number of studies that address challenges that arise between two separate functions who are inter-dependent and share the same ultimate goal. These leadership challenges were identified and presented above in Table 2 in section 2.3.3. The empirical findings show that several of the factors are present at the organizations today, but also that some used to be present but have since been addressed and changed as part of advancing the servitization process.

The first and second challenge (*management has different views on the importance of servitization* and *management has different view on alignment and collaboration*) is related to resource allocation and management views. These challenges address the fact that a change

[16] *The Secondary Case Company 2 started their initial servitization process in the late 1980's. Interviewees and secondary sources have not been able to provide fully consistent answers to the reasons driving the servitization process, which has led to the exclusion of the Secondary Case Company 2 in this table.

process needs a clear mandate from management, which is hard to obtain if there are different views on the importance of the change as well as the importance of aligning the organization. When conducting interviews across the organization at the Primary Case Company, it became evident that management had struggled with these challenges up until recently. There used to be differences within top management related to opinions on whether servitization actually is something that could help the company, but also about how important organizational alignment really is. These factors are crucial challenges to overcome as management determines the resource allocation and overall organizational focus. Thus, if management does not see the importance of allocating resources to supporting solutions, the existing structures will live on.

However, this seems to have changed recently as management seems to have become more aligned internally and has addressed the importance of increasing inter-functional collaboration. Interviewees believe that the tipping point for management came when the service organization managed to retain high profit margins and grow enough to become more credible internally. Furthermore, sales managers were able to prove, through research, several advantages of cross-functional collaboration. One such finding was that the best performing sales representatives were the ones who collaborated the most cross-functionally, thus providing compelling solutions to the customers. When these milestones were achieved, the final doubters in management realized that servitization represented a viable business opportunity, and therefore decided to support it.

However, all organizations have not been able to address this issue yet. The Secondary Case Company 1 is clearly shattered internally as top managers in the service and product organization fundamentally disagree on the importance of servitization as well as the importance of internal alignment and collaboration. While managers that come from the service side seem to be convinced that the future lies within services and solutions, managers from the product side are less convinced as they believe that it is the quality of the products alone that will determine the company's future success.

The third and fourth challenge (*contradictory goals & incentive systems* and *differences in working styles*) are related to goals, work descriptions and incentive systems. These challenges address the problem of steering and leading by sending mixed signals. What becomes evident in the empirical findings is that sending mixed signals internally is quite prevalent. An obvious example of this is whether the incentive systems reinforce the strategy or not. That the incentive systems at the Primary Case Company and the Secondary Case Company 2 do not reinforce their servitization strategy is evident as the incentive systems lack KPIs related to both servitization and collaboration. At the Secondary Case Company 2, the incentive systems even work actively against each other as the divisional sales forces are incentivized based on short-term sales volume, while the more solutions-oriented Key Account Managers are incentivized based on long-term or even life-cycle valuations of a customer, where they are encouraged to collaborate with other functions and develop the customer over the long term. However, as the others do not have the same time perspective - due to their incentive systems - collaboration becomes less attractive.

The fifth challenge is related to *culture, status and trust*. This challenge addresses differences in backgrounds, personalities, priorities etc. that can lead to differences in culture and struggles related to status and trust when trying to increase collaboration. These issues were evident at the Primary Case Company and the Secondary Case Company 1, where interviewees claimed that members of the other sales force (service or product) were not reliable and that they did not add value.

The challenges to alignment and collaboration as identified by previous research are visualized in Table 5 below. This also includes a breakdown of whether these challenges were present at the case companies at the time of the examination.

	Primary Company	**Secondary Company 1**	**Secondary Company 2**	**Secondary Company 3[17]**
Resource allocation				
Management has different views on the importance of servitization		X	X	-
Management has different views on alignment and collaboration		X		-
Goals, Work descriptions & Incentives				
Contradictory goals & incentive systems	X		X	-
Differences in working styles	X	X	X	-
Culture, Status & Trust				
Trust issues between service and product sales forces	X	X		-

Table 5: Challenges to alignment and collaboration in a servitization setting. An "X" means that the empirics show that the challenges are present, at the time of this study

[17] As discussed above, the Secondary Case Company 3 has transformed their organization more radically than the other companies. At the time of this study, they had therefore already addressed the challenges in this table by restructuring the organization.

However, the above-mentioned challenges are not sufficient to describe some of the empirical findings. At the two aforementioned companies, a feeling of threat between the product and service sales forces could be identified following the interviews. This finding cannot be explained entirely by traditional theories on change or collaboration issues, which are founded in status and hierarchies. For example, Mathieu (2001) argues that a servitization process can lead to internal conflicts due to a fear of loss of power and defensive behavior due to re-distribution of new responsibilities. Even though this could explain in part some of the behavior that is presented in the empirical section, it does not cover all.

Examples of conflicts that can be explained using Mathieu's (2001) framework are initial management resistance and disagreements over resource allocation. These can be explained as parts of a regular change process and thus not specific for a transformational servitization setting. However, other reactions are harder to explain by solely using existing theories.

Reactions that are not predicted by theory are the respective sales forces' reactions that are related to their work descriptions. While power struggles and initial resistance are to be expected, as mentioned above, theory fails to predict that the threat goes deeper than that. The product sales representatives state explicitly that they feel that they cannot successfully carry out their work if the service sales representatives are successful at theirs. By this they mean that for every preventive maintenance service sold, for example, the life-cycle of the product is prolonged which would decrease product sales. This perceived contradiction runs deeper than the aforementioned disagreements as it strikes through the very core of what the respective groups stand for and work for. In essence, the product sales representatives have a genuine fear of what future they have at the organization if the service sales force expands further. This is further underpinned by structural factors, such as incentive systems which reward this contradictory behavior and also a lack of KPIs and other structures to increase levels of alignment and collaboration.

5.3.3 SECTION SUMMARY

This section has addressed practical challenges that organizations face specifically while in a transitional servitization process. Research suggests that servitizing organizations should separate their product and service organizations following reasons including avoiding suffocation of services, differences in working styles and skills sets as well as making P&L transparent. The empirical findings confirmed the research by showing that the organizations had indeed separated products and services and also that the aforementioned reasons were present at the time of separation.

However, the separation also leads to a number of practical leadership challenges related to alignment and collaboration between the two organizations, as the ultimate goal of servitization is to provide solutions to customers.

Research into this specific area of servitization is limited; however, there are a number of related fields that has addressed this topic. A number of challenges has thus been identified, out of which a clear majority is, or has been, present at the case companies that are currently pursuing a transitional servitization. These can all be seen as barriers to servitization and should therefore be addressed in order to advance the change process.

However, some of the empirical findings cannot be sufficiently explained by previous research. While internal conflicts following a change of this caliber are to be expected, the empirical findings reveal a feeling of threat that can be seen especially among the product and service sales forces. This threat emanates from the very core of their purpose, as they believe that they cannot perform their work in the best possible way if the other function performs theirs. This feeling is also reinforced by existing structures, such as incentive systems, which encourages contradictory goals rather than collaboration and total sales.

6 CONCLUDING DISCUSSION

This chapter presents the research gaps that this study builds on and further elaborates on the research questions which the analysis has aimed to answer. Furthermore, the chapter summarizes the answers to the research questions as identified in the analysis and highlights the study's limitations. The chapter further discusses the study's theoretical and practical contributions and introduces areas that based on this study could be relevant for further research.

6.1 CONCLUSIONS

The research gap which this study is based on is twofold. Firstly, a gap related to strategy and organization is identified, by comparing the conclusions reached by general strategy theory put forward by Porter (1996) and servitization research, as presented by Kallenberg & Oliva (2003); Turunen & Neely (2012) and Gebauer et al (2006).

Secondly, even though a number of studies have discussed the servitization transformation process, few have addressed practical leadership challenges related to potential internal conflicts in such a change. This study therefore discusses whether more specific challenges can be identified and explained.

These research gaps are addressed by answering the three overall research questions that this study is founded on. The first research question asks *under what circumstances an organization should choose a radical or transitional approach to servitization transformation.*

While the radical approach follows Porter's (1996) suggested strategic framework, this study finds that it is not always desirable. The choice between transformation styles is largely due to the level of maturity and demand that is found among customers. A radical servitization is therefore found to be undesirable if a large part of existing and potential customers have a low level of maturity and acceptance of purchasing solutions. It is thus evident that if there still is a large demand for doing business in a product-focused way, the organization should be careful about transforming too radically and instead prepare both the organization and customer by conducting a transitional transformation. It is thus argued that servitization in these cases should not lead to the elimination of products, rather the successful transitional servitization results in an offer where the company bundles products and services into a tightly combined solution.

Consequently, in cases where customers have already accepted and adopted a solutions mindset, organizations should consider a more radical change in order to keep up with the customers, as they otherwise could move to another, more agile, provider.

The second research question aims to explore *which function, apart from top management, which plays the most important role in a transitional servitization process.*

The answer to this question is largely related to the answer of the first research question. Due to the previously identified importance of the customers' attributes and actions in this process, the study identified the sales function as the most important group to address in a servitization transformation. The reason for this is that a truly customer-oriented solution only can be delivered if the sales function has an intimate knowledge of not only the customer's particular needs and problems, but also of the own organization's capabilities. In a servitization setting, the ability to coordinate and collaborate with the various parts of the organization thus becomes crucial, which especially can be seen to converge in the sales function.

The third research question asks if there are *specific leadership challenges that arise in a transitional servitization process,* and if yes; *what they are.*

The answer is found to be closely interlinked to the answer to the previous question, as the sales function faces a number of challenges related to alignment and collaboration. While research into this specific area of servitization is limited, there are a number of related fields that has addressed the topic. A number of challenges have thus been identified in both research and in the empirical findings. These can be grouped into three areas; Research Allocation; Goals, Work descriptions & Incentives and Culture, Status and Trust.

However, the study finds that some of the empirical findings cannot be sufficiently explained by previous research. While internal conflicts following a change of this caliber are to be expected, empirical findings reveal a feeling of threat that can be seen especially among the product and service sales forces. The perceived threat is especially prevalent in the product sales force, which view the service sales force as competitors who, if successful in selling services, will decrease their chances of selling their products. This threat is further underpinned by structural factors such as poorly designed incentive systems.

6.2 CONTRIBUTIONS & IMPLICATIONS

This study has identified two fundamental strategic approaches to how a servitization process can be carried out; through *radical* transformation or *transitional* transformation. The findings show that these approaches are appropriate under different circumstances, which are most clearly related to current and potential customers' level of maturity and demand. A clear implication is thus that a servitization process should be initiated by analyzing the customer perspective in order to determine which strategic approach to choose.

Visnjic & Van Looy (2013) suggest that companies succeed with servitization when they change their business models into supporting both products and services – viewing them as revenue complements rather than counteracting, cannibalistic revenue streams. However, this study suggests that strategic tools used by management, such as transforming the business model, is not enough to achieve full servitization, as it is not the management team that carries out the actual change. Changing the business model is a strategic measure to facilitate a more collaborative way of working, but it is not a change driver in itself. The product and service teams must be motivated to collaborate by being shown why and how to do it.

However, as this study show, a common challenge for organizations going through a transitional servitization is that the product and service sales teams do not only lack collaborative working, they actively resist it due to a perceived threat.

This could in part be explained by the fact that the organizations have not implemented servitization as one overarching corporate strategic initiative, which leads to sub-optimizations throughout the organization. A specifically challenging area is that the service and product sales forces have not grasped the value of collaboration as they feel threatened by one another. This feeling is further underpinned by the support systems that are in place to facilitate this. Examples of this are seen as incentive systems and work descriptions are perceived to be contradictory, as they fail to reward cooperation and instead actively reward conflicting behavior. For instance, as seen in the empirics, some organizations have already established ways to encourage a higher level of cooperation throughout the organization by appointing key account managers with an overall responsibility for developing the client long-term. However, the reason for why these solutions fail is the lack of a holistic perspective, as identified above, as other parts of the organization are still measured and incentivized on short-term sales volume which clash with the key account managers' long-term incentives.

This study shows that servitization represents a new and fundamentally different way of working that can bring out active resistance related to a perceived threat in cases where a transitional servitization process is initiated.

The study therefore identifies a need to remove this perceived threat as a very first step in the transformation, as this has been found to be a key barrier. As mentioned above, this step focuses on how to fundamentally change the perceptions of each other that the two groups (service and product sales) have at the moment. As the groups view each other as threats, they need to break down the active resistance and be brought to a neutral perspective before a regular change process can be implemented. Following the empirical findings from the Primary Case Company, it is clear that increased collaboration give better sales results for both functions, even if incentive systems which are perceived to be contradictory still exist. To explain how and why the groups would be better off by cooperating is therefore vital. This should of course also be complemented by addressing and changing other previously identified challenges by taking a holistic approach to connecting incentive systems, work descriptions etc. to encourage collaboration.

6.3 LIMITATIONS TO OVERALL CONTRIBUTIONS

The findings in this study are subject to some limitations. The most important limitations, in addition to the ones identified in section 3.3, are presented below.

Firstly, the companies in this study are in different stages of servitization and in different contexts which can influence comparisons.

Secondly, while the primary case company is examined through research and an extensive amount of interviews across the organization, the secondary case companies were examined to a somewhat lesser extent. While this is natural as the secondary case companies are included for comparative reasons, it can be seen as a limitation as it increases the risk of bias or inaccuracies in these cases.

Thirdly, the empirical section covers the background and motives for the case companies' servitization. As some of the companies initiated these processes a long time ago, there are a limited number of available interviewees who experienced the process first hand. Also, as the processes were initiated many years ago, the interviewees' memories of the process may be subjective and biased.

6.4 FURTHER RESEARCH

A perspective which lies beyond the scope of this thesis is related to the specific organizational characteristics that could have an impact on the likelihood of whether a radical or transitional change is optimal. A major difference between the case companies in this study which chose a transitional or a more radical approach was their customer base. It could be conceivable that organizations that are more dependent on fast-moving end-users are more likely to be forced into radical transformations than organizations with a customer base which reacts slower to change. This idea would be interesting to study further.

Furthermore, while servitization research suggests separation between the service and product organization initially, there is less research addressing long-term optimal organizational structures. As the purpose of servitization is to increase solutions, it would be interesting to see whether the separated organizations should be re-combined at some stage of the servitization process in order to increase collaboration and alignment.

Lastly, as this study is limited to a single case-study with three supporting case companies, it would be valuable to go even more in-depth to explore whether the findings from this study actually are generalizable across different industries and settings.

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APPENDIX

LIST OF INTERVIEWEES

Title/Function	Company	Interview type	Date
President, Service Division	Primary Case Company	Physical	2014-02-10
Divisional Controller & Business Development, Service Division	Primary Case Company	Physical	2014-02-10
Global Sales Manager, Service Division	Primary Case Company	Physical	2014-02-10
Zone Manager, Product Division	Primary Case Company	Phone	2014-01-28
Salesman, Service Division	Primary Case Company	Phone	2014-01-28
Regional Sales Manager, Service Division	Primary Case Company	Phone	2014-01-28
Regional Sales Manager, Service Division	Primary Case Company	Phone	2014-01-28
Salesman, Service Division	Primary Case Company	Phone	2014-01-28
Salesman, Product Division	Primary Case Company	Phone	2014-01-29
Salesman, Service Division	Primary Case Company	Phone	2014-01-30
Salesman, Service Division	Primary Case Company	Phone	2014-01-31
Regional Sales Manager, Service Division	Primary Case Company	Phone	2014-02-14
Salesman, Service Division	Primary Case Company	Phone	2014-02-06
Salesman, Service Division	Primary Case Company	Phone	2014-02-07
Salesman, Service Division	Primary Case Company	Phone	2013-02-07

Service Planner, Service Division	Primary Case Company	Phone	2014-02-07
Salesman, Product Division	Primary Case Company	Phone	2014-02-10
Salesman, Product Division	Primary Case Company	Phone	2014-02-13
Business Line Manager, Product Division	Primary Case Company	Phone	2013-02-27
General Manager	Primary Case Company	Phone	2013-02-27
Business Line Manager, Service Division	Primary Case Company	Phone	2013-02-27
Business Line Manager, Product Division	Primary Case Company	Phone	2013-03-04
Manager, Global Services	Secondary Case Company 1	Phone	2013-04-29
VP Strategy & Business Development	Secondary Case Company 1	Physical	2013-04-26
Head of Business Unit	Secondary Case Company 1	Physical	2013-05-15
Senior Consultant	Secondary Case Company 2	Physical	2013-05-14
Associate, Software Division	Secondary Case Company 2	Physical	2014-02-21
Director, Business Development	Secondary Case Company 3	Physical	2013-04-19
Former Executive, Corporate Strategy	Secondary Case Company 3	Physical	2013-05-13